

DW 02-021

PENNICHUCK EAST UTILITY, INC.

Petition for Authority to Issue Unsecured Debt

Order Nisi Approving Petition Subject to Certain Conditions

O R D E R N O. 23,922

February 22, 2002

I. PROCEDURAL HISTORY AND BACKGROUND

The Petitioner, Pennichuck East Utility, Inc. (the Company), on February 8, 2002, filed a petition with the New Hampshire Public Utilities Commission (Commission), pursuant to RSA 369, requesting authorization to issue up to \$462,000 in long-term, unsecured debt from the Drinking Water State Revolving Loan Fund. These funds will be used to finance improvements to the Green Hills community water system.

The Company is a New Hampshire corporation, authorized by this Commission to provide water service to various service territories in Southern New Hampshire, including the Green Hills community water system located in a mobile home park in the Town of Raymond, New Hampshire. This system serves 236 customers through an existing interconnection with the Town of Raymond.

The proposed financing is part of a \$1.162 million project which includes the replacement of 11,250 linear feet of water main in the Green Hills system. This water main

replacement will i) significantly reduce recurring leaks in the system, thereby reducing future maintenance costs, ii) provide fire protection service for the first time to the customers served in Green Hills, and iii) eliminate the potential of a cross contamination hazard resulting from the proximity of the water main leaks to individual septic systems. The project will also include the replacement and upgrade of approximately 150 service lines which currently do not have shutoff valves and are made of low quality materials and therefore prone to frequent leaks and breaks. In addition, the last major component of the project will be the asphalt overlay of the roads in the park where the distribution mains will be upgraded. Construction of this project is expected to begin in the second quarter of 2002, with an expected completion date during the third quarter of 2003.

It is anticipated that funding for this project will be derived from two sources. The first is a \$700,000 Community Development Block Grant (CDBG) which the Company worked to obtain with the Town of Raymond through the New Hampshire Office of State Planning. The Company will treat the receipt of these funds as a contribution in aid of construction (CIAC) on its books and for ratemaking purposes.

The second source of funding is the proposed \$462,000 loan from the Drinking Water State Revolving Loan Fund (SRF) that is administered by the New Hampshire Department of Environmental Services (NH DES). The Company applied for SRF funding for this project during 2001. In a letter from NH DES dated February 1, 2002, the Company was informed that the Green Hills project was included in the funded portion of the FY 2001 Drinking Water State Revolving Loan project priority list.

The proposed terms and conditions of this loan include a twenty year payment term at an interest rate of 3.976% to commence one year after substantial completion of the project. The loan will be repaid in monthly payments of 1/240 of the principal amount plus accrued interest. During construction, NH DES will make disbursements to the Company based on invoices submitted by contractors engaged by the Company. The interest rate on the funds advanced during construction will be 1.00% per annum.

Once the Company is granted authority by the Commission to borrow funds from the SRF, the NH DES will then prepare loan documents for the transaction. The loan documents will set forth the exact terms and conditions for borrowing the funds from the SRF, but are expected to be

substantially the same as those in prior SRF loans brought before the Commission. The documents will then be submitted to the Governor and Executive Council for their approval. The Company will provide the Commission with a copy of these loan agreements and other loan documents once they have been received from NH DES.

The Commission Staff has reviewed the filing, including the proposed terms and conditions of the loan, and supports the Company's request for financing authority.

II. COMMISSION ANALYSIS

Pursuant to RSA 369:1, public utilities engaged in business in this State may issue evidences of indebtedness payable more than 12 months after the date thereof only if the Commission finds the proposed issuance to be "consistent with the public good." We may look beyond actual terms of the proposed financing to the use of the proceeds of those funds and the effect on rates to insure the public good is protected. See *Appeal of Easton*, 125 N.H. 205, 211 (1984).

In the case at hand, the proposed financing will be used to fund a portion of the substantial improvements planned for the Green Hills community water system. It is anticipated that this project will benefit the Green Hills customers through the realization of improved service, safety and

reliability. The Commission notes that the project will be substantially funded by the CDBG, which will minimize any future rate impact on customers.

Anticipating that the proposed financing may affect the overall cost of capital to ratepayers, we must also review that aspect of the financing. As is set forth, the note is proposed to be payable over a term of twenty years at an interest rate of 3.976%. We believe this is a very favorable rate for a project of this undertaking. The availability of the SRF funds and the CDBG together provide an excellent means of reducing the cost of these improvements to customers.

Under the circumstances, we find that the terms and conditions of the loan are just and reasonable and the proposed use of the funds to be prudent and in the public good.

Based upon the foregoing, it is hereby

ORDERED NISI, that, pursuant to RSA 369:1-4, the proposed financing, upon the terms and conditions indicated in the Company's petition, and subject to the terms and conditions specified in this Order, is consistent with the public good; and it is

FURTHER ORDERED, that, pursuant to RSA 369:1-4, the Petitioner is authorized to borrow an amount up to \$462,000

from the Drinking Water State Revolving Loan Funds under the terms and conditions set forth by the New Hampshire Department of Environmental Services which administers those funds; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of this Order Nisi to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than March 4, 2002 and to be documented by affidavit filed with this office on or before March 18, 2002; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than March 11, 2002; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than March 18, 2002; and it is

FURTHER ORDERED, that this Order Nisi shall be effective March 25, 2002, unless the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file true copies of the loan documents executed or otherwise finally issued in connection with the closing of the transactions contemplated hereby.

By order of the Public Utilities Commission of New Hampshire this twenty-second day of February, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary